Mkhondo Local Municipality

Annual Financial Statements
for the year ended 30 June 2019

General Information

Mayoral committee

Executive Mayor	Cllr. V.M. Motha
Speaker	Cllr. T.G. Nkosi
Chief Whip	Cllr. M. Yende
Member of Mayoral Committee- Finance	Cllr. Z.J. Mnisi
Member of Mayoral Committee- Community Services	Cllr. D. Twala
Member of Mayoral Committee- Planning, Corporate and Development	Cllr. T.E. Khumalo
Councillors	Cllr. C.B Mkwananzi
	Cllr. D.M. Twala
	Cllr. B.J. Vilakazi
	Cllr. B.M. Khumalo
	Cllr. S.S.Mathebuka
	Cllr. T.P. Hlathwayo
	Cllr. K.D. Masondo
	Cllr. R.P. Hlatshwayo
	Cllr. T.S. Nkosi
	Cllr. D.M. Ntshakala
	Cllr. J.P. Makathini
	Cllr. T.S. Mafuyeka
	Cllr. M.Z. Ngwenya
	Cllr. T.W. Manana
	Cllr. M.D. Nthuli
	Cllr. B.C. Mkwananzi
	Cllr. T.B. Nkosi
	Cllr. F.C. Mthetwa
	Cllr. S.M. N. Bophela
	Cllr. T.S.M. Zulu
	Cllr. S.Z. Yende
	Cllr. D.L. Ngobeza
	Cllr. J.B. Brussow
	Cllr.S.J. Methula
	Cllr. S.C.Mahlobo
	Cllr. R.J.A. Wilson
	Cllr. P.E. Thabede
	Cllr. N.N. Zulu
	Cllr. T.P. Mncube
	Cllr. B.J. Mchunu

General Information

Accounting Officer	Mr. M. Kunene
Chief Finance Officer (CFO)	Mr. B. Maseko
Registered office	Cnr Market & De Wet street Piet Retief 2380
Business address	Cnr Market & De Wet street Piet Retief 2380
Postal address	P.O. Box 23 Piet Retief 2380
Bankers	First National Bank A division of First Rand Limited

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on Pages 5 to 96, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2019 and were signed on its behalf by:

M. Kunene
Municipal Manager

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2019.

1. Review of activities

Main business and operations

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 100,906,550 (2018: deficit R 53,043,572), after taxation of R - (2018: R -).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the subordination agreement referred to in note XX of these annual financial statements will remain in force for so long as it takes to restore the solvency of the municipality.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The accounting officer has no interests in the contracts awarded for the period under review.

5. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name
Mr. M. Kunene

7. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Board meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

Accounting Officer's Report

Executive Mayor and Muncipal Manager

The roles of the Executive Mayor and the Municipal Manager are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

Audit committee

The audit comittee members for the period under review are as follows;

Name	Position	Date of appointment
Ms. C. Nyembe	Chairperson	30 August 2018
Advocate J. C. Weapond	Member	1 December 2017
Mr. L. Mohalaba	Member	1 December 2017
Mr. A. Singh	Member	25 August 2018

In terms of Section 166 of the Municipal Finance Management Act, (Act 56 of 2003), the municipality, must appoint members of the Audit Committee who are not directors of the municipal entity onto the audit committee.

Internal audit

The municipality has a functional internal audit unit. This is in compliance with the Municipal Finance Management Act, 2003.

8. Bankers

The Municipality's banker is First National Bank Limited, a division of First Rand Limited.

9. Auditors

Auditor General South Africa will continue in office for the next financial period.

10. Public Private Partnership

In accordance with the PPP agreement, the Contractor shall open a separate account with a bank registered in the Republic of South Africa, for the purpose of administering and separate safekeeping of:

- moneys deposited as excess surpluses;
- any foreign exchange rate amounts;
- any service credits; and
- any penalties for later service commence mental text.

Mkhondo Local Municipality did not enter into any Public Private Partnerships during the year under review.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2019 and were signed on its behalf by:

M. Kunene
Municipal Manager

Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Inventories	2	11,434,421	13,178,779
Other financial assets	3	39,823	39,823
Receivables from exchange transactions	4	3,687,153	4,001,581
Receivables from non-exchange transactions	5	3,899,700	2,045,006
Consumer debtors	6	40,743,849	41,692,974
Cash and cash equivalents	7	5,812,424	3,443,926
		65,617,370	**64,402,089**
Non-Current Assets			
Biological assets that form part of an agricultural activity	8	47,330,066	49,238,889
Investment property	9	18,185,455	19,418,743
Property, plant and equipment	10	1,612,651,574	1,655,878,968
Intangible assets	11	58,538	91,987
Other financial assets	3	425,501	425,501
		1,678,651,134	**1,725,054,088**
Total Assets		**1,744,268,504**	**1,789,456,177**
Liabilities			
Current Liabilities			
Other financial liabilities	17	5,000,000	10,000,001
Finance lease obligation	15	2,314,789	-
Operating lease liability	12	-	5,275
Payables from exchange transactions	19	301,745,590	255,893,643
VAT payable	20	17,945,060	16,525,137
Consumer deposits	21	3,675,400	3,551,068
Employee benefit obligation	13	2,433,563	1,619,055
Unspent conditional grants and receipts	16	-	552,492
		333,114,402	**288,146,671**
Non-Current Liabilities			
Finance lease obligation	15	4,999,174	-
Employee benefit obligation	13	23,542,705	21,298,625
Provisions	18	25,328,957	21,821,072
		53,870,836	**43,119,697**
Total Liabilities		**386,985,238**	**331,266,368**
Net Assets		**1,357,283,266**	**1,458,189,809**
Accumulated surplus		1,357,283,261	1,458,189,792

* See Note 51 & 50

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	23	169,403,833	148,060,908
Licences and permits	25	108,204	101,547
Rental income		1,237,264	1,142,495
Other income	28	50,854,399	28,387,838
Interest received	29	25,902,032	21,186,310
Gain on disposal of assets and liabilities		-	1,686,386
Inventories reversal		726,379	57,821
Total revenue from exchange transactions		**248,232,111**	**200,623,305**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	30	43,660,145	39,806,661
Transfer revenue			
Government grants & subsidies	32	343,463,074	339,103,627
Public contributions and donations	33	695,600	29,141,392
Fines, Penalties and Forfeits	24	19,545,461	2,428,175
Total revenue from non-exchange transactions		**407,364,280**	**410,479,855**
Total revenue	22	**655,596,391**	**611,103,160**
Expenditure			
Employee related costs	34	(171,246,030)	(162,047,885)
Remuneration of councillors	35	(15,052,005)	(13,952,594)
Depreciation and amortisation	36	(138,156,560)	(132,017,186)
Impairment loss		(39,950)	-
Finance costs	37	(18,318,366)	(14,656,478)
Lease rentals on operating lease	26	(5,030,931)	(4,708,585)
Debt Impairment	38	(81,819,951)	(65,277,632)
Bulk purchases	39	(129,752,920)	(122,428,708)
Contracted services	40	(111,063,880)	(74,385,392)
Transfers and Subsidies	31	(3,473,151)	(5,473,472)
Loss on disposal of assets and liabilities		(452,262)	-
Fair value adjustments		(1,908,823)	(10,445,399)
General Expenses	41	(80,188,112)	(58,753,401)
Total expenditure		**(756,502,941)**	**(664,146,732)**
(Deficit)/surplus for the year		**(100,906,550)**	**(53,043,572)**

* See Note 51 & 50

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1,530,160,905	1,530,160,905
Adjustments		
Prior year adjustments	(18,927,541)	(18,927,541)
Balance at 01 July 2017 as restated*	**1,511,233,364**	**1,511,233,364**
Changes in net assets		
Deficit for the year	(53,043,572)	(53,043,572)
Total changes	(53,043,572)	(53,043,572)
Opening balance as previously reported	1,377,324,539	1,377,324,539
Adjustments		
Prior year adjustments	80,865,272	80,865,272
Restated* Balance at 01 July 2018 as restated*	**1,458,189,811**	**1,458,189,811**
Changes in net assets		
Surplus for the year	(100,906,550)	(100,906,550)
Total changes	(100,906,550)	(100,906,550)
Balance at 30 June 2019	**1,357,283,261**	**1,357,283,261**

* See Note 51 & 50

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Property Taxation		37,659,156	25,733,411
Sale of goods and services		190,267,684	144,753,805
Grants		342,910,582	325,529,631
Interest income		531,398	1,142,759
		571,368,820	497,159,606
Payments			
Employee costs		(183,425,327)	(172,023,695)
Suppliers		(275,123,688)	(191,148,946)
Finance costs		(18,318,366)	(14,656,478)
		(476,867,381)	(377,829,119)
Net cash flows from operating activities	45	**94,501,439**	**119,330,487**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(97,227,966)	(121,939,975)
Proceeds from sale of property, plant and equipment	10	2,768,143	1,933,584
Proceeds from sale of investment property	9	305,191	-
Proceeds from sale of financial assets		-	(82,857)
Net cash flows from investing activities		**(94,154,632)**	**(120,089,248)**
Cash flows from financing activities			
Proceeds from other financial liabilities		-	10,000,000
Repayment of other financial liabilities		(5,000,001)	(7,296,891)
Finance lease receipts		7,021,694	-
Net cash flows from financing activities		**2,021,693**	**2,703,109**
Net increase/(decrease) in cash and cash equivalents		**2,368,500**	**1,944,348**
Cash and cash equivalents at the beginning of the year		3,443,924	1,499,578
Cash and cash equivalents at the end of the year	7	**5,812,424**	**3,443,926**

* See Note 51 & 50

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	170,561,700	20,278,236	**190,839,936**	169,403,833	**(21,436,103)**	Ref 1
Licences and permits	55,104	(31,262)	**23,842**	108,204	**84,362**	Ref 2
Rental income	1,542,720	(166,764)	**1,375,956**	1,237,264	**(138,692)**	Ref 3
Other income - (rollup)	12,178,020	9,091,197	**21,269,217**	50,854,399	**29,585,182**	Ref 4
Interest received - investment	14,148,504	784,653	**14,933,157**	25,902,032	**10,968,875**	Ref 5
Total revenue from exchange transactions	**198,486,048**	**29,956,060**	**228,442,108**	**247,505,732**	**19,063,624**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	46,852,188	(416,556)	**46,435,632**	43,660,145	**(2,775,487)**	Ref 6
Transfer revenue						
Government grants & subsidies	334,174,356	-	**334,174,356**	343,463,074	**9,288,718**	Ref 7
Public contributions and donations	-	-	**-**	695,600	**695,600**	
Fines, Penalties and Forfeits	2,187,696	924,913	**3,112,609**	19,545,461	**16,432,852**	Ref 8
Total revenue from non-exchange transactions	**383,214,240**	**508,357**	**383,722,597**	**407,364,280**	**23,641,683**	
Total revenue	**581,700,288**	**30,464,417**	**612,164,705**	**654,870,012**	**42,705,307**	
Expenditure						
Personnel	(166,126,092)	4,894,397	**(161,231,695)**	(171,246,030)	**(10,014,335)**	Ref 9
Remuneration of councillors	(15,724,104)	1,232,925	**(14,491,179)**	(15,052,005)	**(560,826)**	
Depreciation and amortisation	(72,847,200)	334,704	**(72,512,496)**	(138,156,560)	**(65,644,064)**	Ref 10
Impairment loss/ Reversal of impairments	-	-	**-**	(39,950)	**(39,950)**	
Finance costs	-	-	**-**	(18,318,366)	**(18,318,366)**	Ref 11
Lease rentals on operating lease	-	-	**-**	(5,030,931)	**(5,030,931)**	Ref 12
Debt Impairment	(51,500,004)	-	**(51,500,004)**	(81,819,951)	**(30,319,947)**	Ref 13
Bulk purchases	(121,922,100)	(24,873,053)	**(146,795,153)**	(129,752,920)	**17,042,233**	Ref 14
Contracted Services	(19,165,284)	(2,746,574)	**(21,911,858)**	(111,063,880)	**(89,152,022)**	Ref 15
Transfers and Subsidies	(5,281,392)	344,763	**(4,936,629)**	(3,473,151)	**1,463,478**	Ref 16
General Expenses	(61,348,188)	(16,272,165)	**(77,620,353)**	(80,188,112)	**(2,567,759)**	Ref 17
Total expenditure	**(513,914,364)**	**(37,085,003)**	**(550,999,367)**	**(754,141,856)**	**(203,142,489)**	
Operating deficit	**67,785,924**	**(6,620,586)**	**61,165,338**	**(99,271,844)**	**(160,437,182)**	
Loss on disposal of assets and liabilities	(6,000,000)	6,000,000	**-**	(452,262)	**(452,262)**	Ref 18
Fair value adjustments	-	-	**-**	(1,908,823)	**(1,908,823)**	Ref 19
Inventories losses/write-downs	-	-	**-**	726,379	**726,379**	Ref 20
	(6,000,000)	**6,000,000**	**-**	**(1,634,706)**	**(1,634,706)**	
Deficit before taxation	**61,785,924**	**(620,586)**	**61,165,338**	**(100,906,550)**	**(162,071,888)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**61,785,924**	**(620,586)**	**61,165,338**	**(100,906,550)**	**(162,071,888)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	8,500,000	-	**8,500,000**	11,434,421	**2,934,421**	Ref 21
Other financial assets	5,500,000	-	**5,500,000**	39,823	**(5,460,177)**	Ref 22
Receivables from exchange transactions	-	-	**-**	3,687,153	**3,687,153**	Ref 23
Receivables from non-exchange transactions	-	-	**-**	3,899,700	**3,899,700**	Ref 24
Consumer debtors	164,868,840	-	**164,868,840**	40,743,849	**(124,124,991)**	Ref 25
Cash and cash equivalents	770,140	-	**770,140**	5,812,424	**5,042,284**	Ref 26
	179,638,980	**-**	**179,638,980**	**65,617,370**	**(114,021,610)**	
Non-Current Assets						
Biological assets that form part of an agricultural activity	48,800,000	-	**48,800,000**	47,330,066	**(1,469,934)**	Ref 27
Investment property	16,700,000	-	**16,700,000**	18,185,455	**1,485,455**	Ref 28
Property, plant and equipment	1,449,338,805	-	**1,449,338,805**	1,612,651,574	**163,312,769**	Ref 29
Intangible assets	250,000	-	**250,000**	58,538	**(191,462)**	Ref 30
Other financial assets	-	-	**-**	425,501	**425,501**	Ref 31
	1,515,088,805	**-**	**1,515,088,805**	**1,678,651,134**	**163,562,329**	
Total Assets	**1,694,727,785**	**-**	**1,694,727,785**	**1,744,268,504**	**49,540,719**	
Liabilities						
Current Liabilities						
Other financial liabilities	-	-	**-**	5,000,000	**5,000,000**	Ref 32
Finance lease obligation	-	-	**-**	2,314,789	**2,314,789**	Ref 33
Payables from exchange transactions	125,542,818	-	**125,542,818**	301,745,590	**176,202,772**	Ref 34
VAT payable	-	-	**-**	17,105,393	**17,105,393**	Ref 35
Consumer deposits	3,520,000	-	**3,520,000**	3,675,400	**155,400**	Ref 36
Employee benefit obligation	1,500,000	-	**1,500,000**	2,433,563	**933,563**	Ref 37
	130,562,818	**-**	**130,562,818**	**332,274,735**	**201,711,917**	
Non-Current Liabilities						
Finance lease obligation	-	-	**-**	4,999,174	**4,999,174**	Ref 38
Employee benefit obligation	-	-	**-**	23,542,705	**23,542,705**	Ref 39
Provisions	35,108,000	-	**35,108,000**	25,328,957	**(9,779,043)**	Ref 40
	35,108,000	**-**	**35,108,000**	**53,870,836**	**18,762,836**	
Total Liabilities	**165,670,818**	**-**	**165,670,818**	**386,145,571**	**220,474,753**	
Net Assets	**1,529,056,967**	**-**	**1,529,056,967**	**1,358,122,933**	**(170,934,034)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	1,529,056,967	-	**1,529,056,967**	1,358,122,933	**(170,934,034)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Taxation	36,544,722	-	**36,544,722**	37,659,156	**1,114,434**	Ref 41
Sale of goods and services	161,076,571	-	**161,076,571**	191,769,040	**30,692,469**	Ref 42
Grants	334,174,365	-	**334,174,365**	352,910,582	**18,736,217**	Ref 43
Interest income	1,745,400	-	**1,745,400**	531,398	**(1,214,002)**	Ref 44
	533,541,058	**-**	**533,541,058**	**582,870,176**	**49,329,118**	
Payments						
Employee costs	(175,627,874)	-	**(175,627,874)**	(183,425,327)	**(7,797,453)**	Ref 45
Suppliers	(252,007,401)	-	**(252,007,401)**	(261,554,801)	**(9,547,400)**	Ref 46
Finance costs	-	-	**-**	(18,026,097)	**(18,026,097)**	Ref 47
	(427,635,275)	**-**	**(427,635,275)**	**(463,006,225)**	**(35,370,950)**	
Net cash flows from operating activities	**105,905,783**	**-**	**105,905,783**	**119,863,951**	**13,958,168**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(115,703,665)	-	**(115,703,665)**	(124,287,431)	**(8,583,766)**	Ref 48
Proceeds from sale of property, plant and equipment	6,000,000	-	**6,000,000**	4,770,276	**(1,229,724)**	Ref 49
Net cash flows from investing activities	**(109,703,665)**	**-**	**(109,703,665)**	**(119,517,155)**	**(9,813,490)**	
Cash flows from financing activities						
Repayment of other financial liabilities	-	-	**-**	(5,000,000)	**(5,000,000)**	Ref 50
Finance lease receipts	-	-	**-**	7,021,694	**7,021,694**	
Net cash flows from financing activities	**-**	**-**	**-**	**2,021,694**	**2,021,694**	
Net increase/(decrease) in cash and cash equivalents	(3,797,882)	-	**(3,797,882)**	2,368,490	**6,166,372**	
Cash and cash equivalents at the beginning of the year	4,100,000	-	**4,100,000**	3,443,924	**(656,076)**	
Cash and cash equivalents at the end of the year	**302,118**	**-**	**302,118**	**5,812,414**	**5,510,296**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

Statement of Comparison of Budget and actual amounts variances explanations
Statement of financial performamce

Ref 1 **Service charges:** were 12% below budget. There were meters for water and electricity that could not be billed due to them being faulty and disfunctional.
Ref 2 **Licence and permits:** was not budgetd for.
Ref 3 **Rental income:** The variance is 10% below budget,this is considered immaterial
Ref 4 **Other income** :The variance is 143% above budget
Ref 5 Interest received. The variance is 3201% above budget, because of consumer debtors who are not paying their accounts on time
Ref 6 **Property Rates:** The variance is 6% below budget,this is considered immaterial
Ref 7 **Government grants & subsidy:** The variance is 61% above budget
Ref 8 **Fines and Penalties:** The variance is 140% abovethe budget
Ref 9 **Employee Salaries:** The variance is 3% above the budget,this is considered immaterial
Ref 10 **Remuneration of Councillors:** The variance is 4% above the budget,this is considered immaterial
Ref 11 **Depreciation**: The variance is 99% below budget. The current year depreciation is yet to be factored in.
Ref 12 **Finance Costs:** Finance charges is 1% below the budget
Ref 13 **Debt impairment:** Debt impairment is 29 % above budget. This is attributed to general economic hardships facing the community and hence a huge non performing debt book.
Ref 14 **Repairs and maintanance** is 100% above budget. The actual expenditure on repairs and maintenenace is reported under contracted services.
Ref 15 **Bulk purchases** is 12% below budget. This could be attributed to the sucess in awareness campaigns to conserve electricity.
Ref 16 **Transfer and grants** The variance is 12% below the budget. This is due to less than anticipated consumers registered for the indigent subsidy for the financial year,
Ref 17 **General expenditure** The variance is 3% above budget and is considered immaterial.
Ref 18 **Loss on disposal of assets** was not budgeted for
Ref 19 **Fair value adjustment** The variance is 100%, it was not budget for
Ref 20 **Inventory losses** The variance is 100%, it was not budget for

Statement of Financial Position

Current Assets
Ref 21 Inventories: the variance is 26% above budget. Municipality held more stocks at year end than anticipated.
Ref 22 **Other financial Assets:** the variance is 99% below budget**.** No new investments were undertaken because of low liquidity during the year.
Ref 23 **Receivable from exchange transaction:** Ththe variance is 100% above budget ,not budget for**.**
Ref 24 **Receivable from non -exchange transaction:** Tthe variance is 100% above budget ,not budget for
Ref 25 **Consumer debtors**: The variance is 76% below budget. This is because of a higher impairment provision than what was budgeted for.
Ref 26 **Cash and cash equivalents** : The varaiance is 685% above budget. The Municipality had set aside money in short term deposit accounts to meet critical payments and hence a positive cash balance than what was budgeted for.

Non current Liabilities
Ref 27 **Biological Assets** the variance is 3% below budget

Ref 28 **Investment property** : Tthe variance is 1% above budget and is considered to be immaterial.
Ref 29 **PPE:** The variance is 14% belwo the budget. Depreciation for the year is yet to be factored in.
Ref 30 **Intangable Assets:** The variance is 53% below budget. There were no new intangibles acquired during the year.
Ref 31 **Other financial Assets:** The variance is 100% above budget ,not budget for

Current Liabilities
Ref 32 **Other financial liabilities:** The variance is 100% above budget ,not budget for
Ref 33 **Finance lease obligation:** The variance is 100% above budget ,not budget for
Ref 34 **Payable from exchange transaction:** The variance is 137% above budget**.** The Municipality had cash flow challenges which inhibitted it from liquidating its debts.

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

Ref 35 **Vat payable:** The variance is 100% above budget ,not budget for
Ref 36 **Consumer deposits:** The variance is 4% above budget which can be considered as imaterial
Ref 37 **Employee benefits obligation:** the variance is 8% above budget and is considered immaterial.

Non-Current Liabilities
Ref 38 **Finance lease obligation:** The variance is 100% above budget ,not budget for
Ref 39 **Employee benefits obligation** the variance is 100% above budget ,not budget for
Ref 40 **Provision:** The variance is 28% below budget.

Cash Flow Statement
Ref 41 **Taxation:** The variance is 3% above budget. This is considered immaterial.
Ref 42 **Sale of goods and services:** The budget is 19% above budget. It signifies improved cash collections over budget.
Ref 43 **Grants:** The variance is 6% above budget. All the grants received met the recognition criteria.
Ref 44 **Interest income:** The variance is 696% below budget. Not much investment activities took place because of the cash flow challenges.
Ref 45 **Employee costs:** The variance is 4% above budget. This is considered immaterial.
Ref 46 **Suppliers:** The variance is 4% above budget and is considered immaterial.
Ref 47 **Finance costs:** The component was not budgeted for.
Ref 48 **Purchase of property plant and equipment:** The variance is 7% above budget and is consered immaterial.
Ref 49 **Proceeds from sale of property plant and equipment: T**he variance is 20% below budget. Collections were lower than projected.
Ref 50 **Repayment of other financial liabilites:** Not budgeted for.
Ref 51 **Finance lease:** Not budgeted for.

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

The carrying amount of available-for-sale financial assets would be an estimated R - lower or R - higher were the discounted rate used in the discount cash flow analysis to differ by 10% from management’s estimates.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 13.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Biological assets that form part of an agricultural activity

The entity recognises biological assets that form part of an agricultural activity or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets that form part of an agricultural activity are measured at their fair value less costs to sell.

The fair value of the vine / pine plantations is based on the combined fair value of the land and the vines / pine trees. The fair value of the raw land and land improvements is then deducted from the combined fair value to determine the fair value of the vines / pine trees.

A gain or loss arising on initial recognition of biological assets that form part of an agricultural activity or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of biological assets that form part of an agricultural activity is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

An unconditional government grant related to biological assets that form part of an agricultural activity measured at its fair value less costs to sell is recognised as income when the government grant becomes receivable.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on biological assets that form part of an agricultural activity where fair value cannot be determined, to write down the cost, less residual value, by equal instalments over their useful lives as follows:

Item	Useful life
Trees in timber plantation - Consumable	indefinite

1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	**Useful life**
Property - land	indefinite
Property - buildings	50 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.6 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

1.6 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Land and buildings - Community Facilities	Straight line	15-100 years
Land and buildings - Servitudes	Straight line	0
Land and Buildings - Fire/Ambulance stations	Straight line	5-100 years
Land and buildings - Municipal offices	Straight line	5-100 years
Land and buildings - Workshops/depots/yards	Straight line	5 -100 years
Land and buildings - Outdoor sport facilities	Straight line	15 -50 years
Land and buildings - Staff housing	Straight line	15 - 100 years
Water Supply network - Storm water network	Straight line	20-50 years
Water Supply network- Bulk mains	Straight line	40- 80 years
Water Supply network - Dams and Weirs	Straight line	15 - 50 years
Water supply network - Distribution	Straight line	80 years
Water supply network - Distribution points	Straight line	15-20 years
Water Supply network - Pumpstations	Straight line	5-100 years
Water Supply network - Reservoirs and towers	Straight line	7-100 years
Water supply networks- Water Treatment works	Straight line	5-100 years
Electricity Networks- LV Network (<1000V)	Straight line	20 years
Electricity networks- MV Network (<=33 kv)	Straight line	45 years
Work in progress	Straight line	not depreciated
Road networks - Roads	Straight line	5 - 100 years
Road Networks - Roadside assets	Straight line	10-50 years
Sanitation Networks - Boreholes	Straight line	15-50 years
Sanitation networks - Outfall sewers	Straight line	80 years
Sanitation network - Reservoirs & towers	Straight line	15 - 50 years

1.6 Property, plant and equipment (continued)

Sanitation network - Reticulation	Straight line	80 years
Sanitation network - Sewer Pump stations	Straight line	10- 100 years
Sanitation network - Waste Water Treatment Works (WWTW)	Straight line	5 - 100 years
Road bridges	Straight line	50 years
Plant and machinery	Straight line	2-15 years
Furniture and fixtures	Straight line	2 - 15 years
Office equipment	Straight line	2-15 years
Transport assets	Straight line	3-15 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.7 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Accounting Policies

1.7 Intangible assets (continued)

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight line	5 years

Accounting Policies

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

1.8 Financial instruments (continued)

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

1.8 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at amortised cost
Receivables from non exchange transactions	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Fixed deposits	Financial asset measured at fair value
Listed equity	Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Financial liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

Accounting Policies

1.8 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.8 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

1.8 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

Accounting Policies

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

1.11 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.11 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

1.11 Employee benefits (continued)

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan’s benefit formula. However, if an employee’s service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

1.11 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.12 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.12 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 48.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.13 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

Accounting Policies

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Accounting Policies

1.14 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality’s right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.15 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

1.15 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

1.15 Revenue from non-exchange transactions (continued)

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.16 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.17 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

1.20 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.21 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity’s financial statements to understand the effect of related party transactions on its annual financial statements.

1.22 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

Accounting Policies

1.22 Events after reporting date (continued)

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

2. Inventories

Consumable stores	10,384,666	9,777,431
Water for distribution	1,049,755	357,264
Other 1	-	3,044,084
	11,434,421	**13,178,779**

Carrying value of inventories carried at fair value less costs to sell	13,786,014	13,178,777

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

3. Other financial assets

Designated at fair value		
Listed Shares - Old Mutual: 13093141	425,501	425,501
This is an Old Mutual Wealth wrapped investment. The account was opened on 25 June 2002 with an initial investment amount of R3 539 868.		
At amortised cost		
ABSA Fixed term deposit	39,823	31,472
This is a fixed term deposit with interest capitalised every three months.		
ABSA Fixed term deposit	-	8,351
This is a fixed term deposit with interest capitalised every three months.		
	39,823	**39,823**
Total other financial assets	**465,324**	**465,324**
Non-current assets		
Designated at held for trading and available for sale	425,501	425,501
Current assets		
At amortised cost	39,823	39,823

4. Receivables from exchange transactions

Deposits	93,298	93,298
Sundry Debtors	3,593,855	3,908,283
	3,687,153	**4,001,581**

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Trade receivables

Counterparties with external credit rating (Moody's)		
Baa3	3,091,496	3,064,028

Fair value of trade and other receivables

Trade and other receivables	3,091,496	3,064,028

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2019, R 3,091,496 (2018: R 3,064,028) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

3 months past due	3,091,496	3,064,028

5. Receivables from non-exchange transactions

Fines	3,899,700	2,045,006

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

5. Receivables from non-exchange transactions (continued)

Receivables from non-exchange transactions impaired

As of 30 June 2019, other receivables from non-exchange transactions of R 16,473,233 (2018: R 12,302,420) were impaired and provided for.

The amount of the provision was R 15,469,648 as of 30 June 2019 (2018: R 1,003,586).

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(1,003,586)	-
Provision for impairment	(15,469,648)	(1,003,586)
	(16,473,234)	**(1,003,586)**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

6. Consumer debtors

Gross balances		
Rates	77,829,547	71,828,558
Electricity	108,468,470	85,956,479
Water	83,706,861	66,419,516
Sewerage	40,085,736	34,080,710
Refuse	67,026,501	55,604,576
Other	21,500,433	20,520,154
	398,617,548	**334,409,993**
Less: Allowance for impairment		
Rates	(70,114,778)	(62,873,852)
Electricity	(97,702,011)	(75,240,476)
Water	(75,398,211)	(58,139,143)
Sewerage	(36,106,871)	(29,831,947)
Refuse	(60,373,525)	(48,672,478)
Other	(18,178,303)	(17,959,123)
	(357,873,699)	**(292,717,019)**
Net balance		
Rates	7,714,769	8,954,706
Electricity	10,766,459	10,716,003
Water	8,308,650	8,280,373
Sewerage	3,978,865	4,248,763
Refuse	6,652,976	6,932,098
Other	3,322,130	2,561,031
	40,743,849	**41,692,974**
Included in above is receivables from exchange transactions		
Electricity	10,766,459	10,716,003
Water	8,308,650	8,280,373
Sewerage	3,978,865	4,248,763
Refuse	6,652,976	6,932,098
Other	2,128,505	2,561,031
	31,835,455	**32,738,268**
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	7,714,769	9,456,829
Net balance	**39,550,224**	**42,195,097**
Rates		
Current (0 -30 days)	321,158	445,559
31 - 60 days	254,625	322,230
61 - 90 days	255,398	285,652
91 - 120 days	6,883,588	7,901,265
	7,714,769	**8,954,706**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

6. Consumer debtors (continued)

Electricity		
Current (0 -30 days)	624,097	830,515
31 - 60 days	449,803	618,104
61 - 90 days	339,708	445,113
91 - 120 days	9,352,851	8,822,271
	10,766,459	**10,716,003**
Water		
Current (0 -30 days)	246,075	1,830,640
31 - 60 days	216,526	1,823,133
61 - 90 days	199,133	1,410,883
91 - 120 days	7,646,916	3,215,717
	8,308,650	**8,280,373**
Sewerage		
Current (0 -30 days)	101,823	812,073
31 - 60 days	87,534	688,659
61 - 90 days	80,226	594,280
91 - 120 days	3,709,282	2,153,751
	3,978,865	**4,248,763**
Refuse		
Current (0 -30 days)	141,524	1,005,414
31 - 60 days	131,643	918,363
61 - 90 days	127,335	877,645
91 - 120 days	6,252,474	4,130,676
	6,652,976	**6,932,098**
Other (specify)		
Current (0 -30 days)	8,000	90,639
31 - 60 days	3,170	82,394
61 - 90 days	2,129	89,516
91 - 120 days	2,115,206	2,298,482
Undefined Difference	**1,193,625**	**-**
	3,322,130	**2,561,031**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(292,717,020)	(228,442,973)
Contributions to allowance	(66,350,304)	(64,274,046)
Undefined Difference	**1,193,625**	**-**
	(357,873,699)	**(292,717,019)**

Fair value of consumer debtors

Consumer debtors	39,550,224	41,692,978

Consumer debtors impaired

As of 30 June 2019, consumer debtors of R 359,067,324 (2018: R 292,717,019) were impaired and provided for.

The amount of the provision was R 66,350,304 as of 30 June 2019 (2018: R 64,274,047).

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

6. Consumer debtors (continued)

The carrying amount of consumer debtors are denominated in the following currencies:

Rand	39,550,224	41,692,979

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

7. Cash and cash equivalents

Cash and cash equivalents consist of:

	2019	2018
Cash on hand	6,342	6,342
Bank balances	997,777,990	590,577,581
Short-term deposits	197,100	342,244
Bank overdraft	(992,169,009)	(587,482,243)
	5,812,423	**3,443,924**

	2019	2018
Current assets	1,000,718,546	594,370,684
Current liabilities	(994,906,122)	(590,926,758)
	5,812,424	**3,443,926**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Credit rating	2019	2018
Baa3	4,600,093	2,740,008

The municipality had the following bank accounts

Account number / description	**Bank statement balances**			**Cash book balances**		
	30 June 2019	**30 June 2018**	**30 June 2017**	**30 June 2019**	**30 June 2018**	**30 June 2017**
First National Bank Cheque account - 620131263656	4,457,562	2,397,763	4,706,974	5,608,981	3,095,336	240,852
First National Bank Fixed Deposit account 62254274732	66,972	12,223	250,185	121,542	12,223	250,185
First National Bank call account 62016967351	10,033	26,048	1,000,000	10,033	26,048	1,000,000
FNB Call account EPWP 62706895911	15,539	72,387	-	15,539	72,387	-
FNB Call account WSIG 62706897214	232	47,553	-	232	47,553	-
FNB Call account FMG 62706892280	30,456	26,923	-	30,456	26,923	-
FNB Call account INEP 62706893890	10,702	10,116	-	10,702	10,116	-
FNB Call account EQS 62706889617	8,216	94,567	-	8,216	94,567	-
FNB Call account MIG 62706890911	381	52,428	-	381	52,428	-
Total	**4,600,093**	**2,740,008**	**5,957,159**	**5,806,082**	**3,437,581**	**1,491,037**

Figures in Rand	2019	2018

8. Biological assets that form part of an agricultural activity

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Trees in timber plantation - Consumable	47,330,066	-	47,330,066	49,238,889	-	49,238,889

Reconciliation of biological assets that form part of an agricultural activity - 2019

	Opening balance	**Gains or losses arising from changes in fair value**	**Total**
Trees in timber plantation - Consumable	49,238,889	(1,908,823)	47,330,066

Reconciliation of biological assets that form part of an agricultural activity - 2018

	Opening balance	**Gains or losses arising from changes in fair value**	**Total**
Trees in timber plantation - Consumable	59,684,288	(10,445,399)	49,238,889

Non-financial information

Quantities of each biological asset		
Trees in a plantation forest	47,330,066	30,052,809

Total population of plantation area;

- Wattle: 22% (582.1ha)

- Gum: 42% (1103.5ha)

- Pine: 36% (963.5ha)

Next fair valuation on the plantation will be due on 30 June 2020

Pledged and restriction

Carrying value of biological assets pledged as security:

Trees standing	-	19,160,654

Terms and conditions

The Municipality secured a short term loan of R5,000,000 from TWK in June 2019.The Loan is secured over certain compartments of standing trees from the Municipality Forests and Plantations.

8. Biological assets that form part of an agricultural activity (continued)

Other information

Methods and assumptions used in determining fair value

Valuation of forested land requires knowledge of the location and current volume of timber resources. Forests are dynamic,biological systems, and estimates of growth for various management strategies were applied. Mean annual increment (MAI) was used on a given index age for a specified silviculture regime (Gum 10 years, Pine 25 years and Wattle 10 years), to determine volume production potential. A MAI (gum: 15 tons/ha/year, pine: 13 tons/ha/year, wattle: 10 tons/ha/year) was used in the evaluation.The standing timber value per hectare is determined by valuing the yield at rotation age and deducting from that the harvesting and delivery cost. The profitability of the crop is then determined by the Faust Mann Formula and incorporates all the costs. Timber prices used were provided by NCT, TWK, and Mondi. Harvesting and transport costs were supplied by local contractors in 2019. The Municipality used an expert to calculate the fair value of biological assets as at 30 June 2019.

Finncial Risk Strategy

The entity is exposed to financial risks arising from the changes in market prices of timber. The entity does not anticipate that timber prices will decline significantly in the foreseable future and therefore has not entered into derivative or other contracts to manage the risk of a decline in timber prices. The entity reviews its outlook for timber prices regularly in considering the need for active financial risk management.Additional text

9. Investment property

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	36,307,094	(18,121,639)	18,185,455	37,107,094	(17,688,351)	19,418,743

Reconciliation of investment property - 2019

	Opening balance	Disposals	Impairments	Depreciation	Total
Investment property	19,418,743	(305,191)	(39,950)	(888,147)	18,185,455

Reconciliation of investment property - 2018

	Opening balance	Depreciation	Total
Investment property	20,322,294	(903,551)	19,418,743

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	29,814,564	-	29,814,564	31,304,608	-	31,304,608
Buildings	67,468,811	(18,206,377)	49,262,434	67,468,811	(15,657,285)	51,811,526
Infrastructure	2,467,972,806	(1,234,279,893)	1,233,692,913	2,324,257,732	(1,115,217,835)	1,209,039,897
Community	93,659,778	(18,995,516)	74,664,262	87,696,381	(14,745,120)	72,951,261
Other property, plant and equipment	53,764,083	(30,177,758)	23,586,325	58,802,102	(42,867,506)	15,934,596
Work in Progress	201,631,076	-	201,631,076	274,837,080	-	274,837,080
Total	**2,914,311,118**	**(1,301,659,544)**	**1,612,651,574**	**2,844,366,714**	**(1,188,487,746)**	**1,655,878,968**

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	31,304,608	-	(1,490,044)	-	-	-	-	29,814,564
Buildings	51,811,526	-	-	-	-	(2,549,092)	-	49,262,434
Infrastructure	1,209,039,897	7,500,000	(2,401)	142,531,027	-	(125,375,610)	-	1,233,692,913
Community	72,951,261	-	-	5,963,397	-	(4,250,396)	-	74,664,262
Other property, plant and equipment	15,934,596	13,322,360	(1,727,960)	-	-	(3,902,993)	(39,678)	23,586,325
Work in Progress	274,837,080	113,144,000	-	(148,494,424)	(37,855,580)	-	-	201,631,076
	1,655,878,968	**133,966,360**	**(3,220,405)**	**-**	**(37,855,580)**	**(136,078,091)**	**(39,678)**	**1,612,651,574**

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	34,595,890	-	(3,291,282)	-	-	31,304,608
Buildings	42,472,760	-	-	11,805,069	(2,466,303)	51,811,526
Infrastructure	1,290,866,960	29,141,392	-	10,131,805	(121,100,260)	1,209,039,897
Community	54,646,054	-	-	22,149,673	(3,844,466)	72,951,261
Other property, plant and equipment	16,376,947	416,381	-	2,746,623	(3,605,355)	15,934,596
Work in Progress	199,976,784	121,693,466	-	(46,833,170)	-	274,837,080
	1,638,935,395	**151,251,239**	**(3,291,282)**	**-**	**(131,016,384)**	**1,655,878,968**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

10. Property, plant and equipment (continued)

Pledged as security

There is no Property, Plant and Equipment which has been pledged as security.

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Total
Opening balance	274,837,080	274,837,080
Additions/capital expenditure	113,144,000	113,144,000
Other movements [specify]	(37,855,580)	(37,855,580)
Transferred to completed items	(148,494,424)	(148,494,424)
	201,631,076	**201,631,076**

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Total
Opening balance	199,976,784	169,301,375
Additions/capital expenditure	121,693,466	121,693,462
Transferred to completed items	(46,888,170)	(15,406,853)
	274,782,080	**275,587,984**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

11. Intangible assets

	2019			2018		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	73,043	(14,505)	58,538	73,043	18,944	91,987

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software, other	91,987	(33,449)	58,538

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software, other	125,437	(33,450)	91,987

Pledged as security

There are no intangible assets pledged as security.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

12. Operating lease (accrual)

Current liabilities	-	(5,275)

13. Employee benefit obligations

Defined benefit plan

The plan is a post employment medical benefit plan.

Post retirement benefit plan

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme. Contribution rates tables are based only on type and number of dependants, and income. As expected health care costs (orclaims) tend to increase with average age, younger (in-service) members generally subsidise older (continuation) members.

Key Financial Assumptions

The table below summarises the key financial assumptions used for the liabilities at the Valuation Date and the expense figures for the ensuing year. The next contribution rate increase is assumed to occur at 1 January 2020.

Key Financial assumptions

Assumption	Value p.a.
Discount rate	8.86%
Health care cost inflation rate	6.45%
Net-of-health-care-cost-inflation discount rate	*2.26%*
Maximum subsidy inflation rate	4.46%
Net-of-maximum-subsidy-inflation discount rate	*4.21%*

Key Demographic Assumptions

Table summarises the key demographic assumptions used.

Assumption	value
Average retirement age	62
Continuation of membership at retirement	75%
Proportion with a spouse dependant at retirement	60%
Proportion of in-service non-members joining a scheme by retirement and continuing with the subsidy thereafter	15%
Mortality during employment	SA 85-90

13. Employee benefit obligations (continued)

Mortality post-employment	PA(90) -1 with a 1% mortality improvement p.a. from 2010

Long service awards

Scope of Valuation

The effective date of the valuation is 30 June 2018 (the “Valuation Date”). The valuation considers all employees eligible for LSA. The LSA liability is not a funded arrangement, i.e. no separate assets have been set aside to meet this liability.The previous actuarial valuation of the Municipality’s LSA liability was undertaken as at 30 June 2017.

The Municipality offers employees LSA for every five years of service completed, from ten years of service to 45 years of service, inclusive.

KEY ASSUMPTIONS

In estimating the unfunded liability for LSA of the Municipality a number of actuarial assumptions are required. The GRAP 25 Statement places the responsibility on management to set these assumptions, as guided by the principles set out in the Statement and in discussion with the actuary.

It should be noted that the valuation method and assumptions do not affect the ultimate cost of the LSA arrangement – this is determined by actual experience and by the benefits provided. The method and assumptions influence how the past service liability and Current-Service costs are recognised over time.
The key financial and demographic assumptions are summarised below.

Key Financial assumptions

Assumption	**Value p.a.**
Discount rate	8.25%
General earnings inflation rate (long-term)	5.61%
Net effective discount rate	*2.50%*

Key Demographic Assumptions

Table summarises the key demographic assumptions used.

Assumption	**value**
Average retirement age	62
Mortality during employment	SA 85-90

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

13. Employee benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the Post Employment Medical Aid -wholly unfunded	(12,843,640)	(12,030,705)
Present value of the Long service Award bligation- wholly funded	(13,132,628)	(10,886,975)
	(25,976,268)	**(22,917,680)**

Non-current liabilities	(23,542,705)	(21,298,625)
Current liabilities	(2,433,563)	(1,619,055)
	(25,976,268)	**(22,917,680)**

The fair value of plan assets includes:

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	22,917,680	20,998,893
Net expense recognised in the statement of financial performance	3,058,588	1,918,787
	25,976,268	**22,917,680**

Net expense recognised in the statement of financial performance

Current service cost	1,275,598	1,132,502
Interest cost	1,984,177	1,809,542
Actuarial (gains) losses	1,417,868	462,652
Settlement	(1,619,055)	(1,485,909)
	3,058,588	**1,918,787**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

14. VAT receivable

15. Finance lease obligation

	2019	2018
Minimum lease payments due		
- within one year	3,272,800	-
- in second to fifth year inclusive	5,727,400	-
	9,000,200	-
less: future finance charges	(1,686,236)	-
Present value of minimum lease payments	**7,313,964**	**-**
Present value of minimum lease payments due		
- within one year	2,314,789	-
- in second to fifth year inclusive	4,999,174	-
	7,313,963	**-**
Non-current liabilities	4,999,174	-
Current liabilities	2,314,789	-
	7,313,963	**-**

It is municipality policy to lease certain motor vehicles and equipment under finance leases.

The average lease term was 6 years and the average effective borrowing rate was 15% (2018: -%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Local goverment sector education and training authority	-	333,732
Water Services Infrastructure grant	-	218,760
	-	**552,492**

Movement during the year

Balance at the beginning of the year	552,492	4,126,488
Additions during the year	133,554,982	153,078,531
Income recognition during the year	(134,107,474)	(156,652,527)
	-	**552,492**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

17. Other financial liabilities

At amortised cost		
TWK Loan This is a short term loan which was secured in June 2018 and repayable by July 2018. The lon is secured over certain compartments of the Municipality forests and plantations	5,000,000	10,000,000
DBSA Streets Ethanda Terms and conditions	-	1
	5,000,000	**10,000,001**
Total other financial liabilities	**5,000,000**	**10,000,001**

Current liabilities		
At amortised cost	5,000,000	10,000,001

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

18. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Total
Environmental rehabilitation provision	21,821,072	3,507,885	25,328,957

Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Environmental rehabilitation provision	15,595,181	6,225,891	21,821,072

Environmental rehabilitation provision

FINANCIAL ASSUMPTIONS USED

Unit costs

Unit costs for each of the cost elements are obtained annually by means of a commercial quotation. Details of this are provided separately.

Consumer Price Index (CPI)

The CPI is used for determining the future value of current costs in the year when the cost is projected to be incurred. The CPI figure used in the GLCCM is based on the three-month average CPI for the quarter that includes the financial year-end date. The average of the CPI for the last three months amounted to 4.1947%.

Discount rate

GRAP 19 states that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In view of the long operational life of landfills, the time value of money is considered material. GRAP 19 prescribes that the discount rate shall be the pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. Normally corporate bond rates are used to determine the discount rate. In line with GRAP 25 Defined benefit plans, government bond rates may also be used to determine the discount rate. The liability for this purpose is in most cases determined for a government entity (municipality). Therefore, government bond rates are considered a more appropriate indicator of the risk associated with the entity than corporate bond rates to determine the discount rate. The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used.

The rate most consistent with the remaining life of the landfill published at the end of the quarter that includes the financial year-end date was used. For this landfill the rate associated with the maximum period of 10 years was used, i.e. 4% above CPI.

19. Payables from exchange transactions

Trade payables	243,265,786	196,342,538
Accrued bonus	4,331,980	4,632,381
Deposits received	35,066	35,066
Debtors with negative balances	5,794,943	2,590,109
Sundry creditors	32,192,192	36,282,447
Accrued leave pay	16,125,623	16,011,102
	301,745,590	**255,893,643**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

20. VAT payable

Tax refunds payables	79,046,645	40,026,374
Tax refunds	(61,101,585)	(23,501,237)
	17,945,060	**16,525,137**

21. Consumer deposits

Electricity, Water and Zero consumtion	3,675,400	3,551,068

22. Revenue

Service charges	169,403,833	148,060,908
Licences and permits	108,204	101,547
Rental income	1,237,264	1,142,495
Other income	50,854,399	28,387,838
Interest received	25,902,032	21,186,310
Property rates	43,660,145	39,806,661
Government grants & subsidies	343,463,074	339,103,627
Public contributions and donations	695,600	29,141,392
Fines, Penalties and Forfeits	19,545,461	2,428,175
	654,870,012	**609,358,953**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	169,403,833	148,060,908
Gains on disposal of assets	108,204	101,547
Other income	1,237,264	1,142,495
Other income	50,854,399	28,387,838
Interest received - investment	25,902,032	21,186,310
	247,505,732	**198,879,098**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	43,660,145	39,806,661
Transfer revenue		
Government grants & subsidies	343,463,074	339,103,627
Public contributions and donations	695,600	29,141,392
Fines, Penalties and Forfeits	19,545,461	2,428,175
	407,364,280	**410,479,855**

23. Service charges

Sale of electricity	125,405,695	107,886,762
Sale of water	22,756,680	19,988,998
Sewerage and sanitation charges	9,872,889	9,440,145
Refuse removal	11,368,569	10,745,003
	169,403,833	**148,060,908**

24. Fines, Penalties and Forfeits

Illegal Connections Fines	19,545,461	2,428,175

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

25. Licences and permits (exchange)

Angling/Fishing	108,204	101,547

26. Lease rentals on operating lease

Premises		
Contractual amounts	1,201,657	899,005
Lease rentals on operating lease - Other		
Contractual amounts	3,829,274	3,809,580
	5,030,931	**4,708,585**

27. Other revenue

Rental income	1,237,264	1,142,495
Other income - (rollup)	50,854,399	28,387,838
	52,091,663	**29,530,333**

28. Other income

Timber sales	15,649,543	25,456,740
Cemetery fees	137,560	182,121
Photo copies	746,523	438,203
Building and clearance certificates	116,901	18,835
Administration costs	24,576	19,486
Commission income	211,286	179,504
Advertising	20,373	23,182
Escourting fees	409,780	1,006,760
Fund raising	8,048	12,401
Licence fees owed to Department of Community, Safety, Security and Liason written off	33,042,516	-
Other revenue	487,293	1,050,606
	50,854,399	**28,387,838**

29. Investment revenue

Interest revenue		
Bank	531,398	1,142,759
Interest charged on trade and other receivables	25,370,634	20,043,551
	25,902,032	**21,186,310**

The amount included in Investment revenue arising from exchange transactions amounted to R 25,902,032.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

30. Property rates

Rates received

Residential	21,395,681	16,164,114
Commercial	9,417,291	9,346,534
State	5,921,386	2,834,749
Small holdings and farms	10,531,324	13,282,425
Less: Income forgone	(3,605,537)	(1,821,161)
	43,660,145	**39,806,661**

Valuations

Residential	2,607,225,900	2,607,225,900
Commercial	954,812,830	954,812,830
State	497,088,760	497,088,760
Municipal	306,911,400	306,911,400
Small holdings and farms	3,889,505,680	3,889,505,680
Vacant Land	193,729,616	193,729,616
Other	6,844,000	6,844,000
	8,456,118,186	**8,456,118,186**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2019.

31. Grants and subsidies paid

Other subsidies

Equitable share	3,473,151	5,473,472

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

32. Government grants and subsidies

Operating grants		
Equitable share	209,448,000	186,451,100
Finance management grant	2,215,000	2,145,000
Local goverment sector education and training authority	565,314	161,287
Expanded public works programme incentive grant	2,281,000	3,350,000
	214,509,314	**192,107,387**
Capital grants		
Municipal Infrastructure Grant	76,735,000	102,215,000
Water Services Infrastructure Grant	35,218,760	34,781,240
Integrated national electrification programme	17,000,000	10,000,000
	128,953,760	**146,996,240**
	343,463,074	**339,103,627**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	138,953,760	82,422,541
Unconditional grants received	214,509,314	192,107,387
	353,463,074	**274,529,928**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R 259 (2018: R 242), which is funded from the grant.

Municipal infrastructure grant (MIG)

Current-year receipts	76,735,000	102,215,000
Conditions met - transferred to revenue	(76,735,000)	(102,215,000)
	-	-

Conditions still to be met - remain liabilities (see note 16).

The municipality has outstanding projects relating to Municipal Infrastructure Grant funding which are yet to be completed. The conditions of the projects are directly in-line with the DORA requirements. The Municipality has committed the unspent portion of the Grant to projects. The Municipal Infrastructure Grant programme is aimed at providing all South Africans with at least a basic level of service through the provision of grant finance aimed at covering the capital cost of basic infrastructure for the poor. The MIG programme is a key part of government's overall drive to alleviate poverty in the country and, therefore, infrastructure is to be provided in such a way that employment is maximised and opportunities are created for enterprises to flourish. An amount of R76,735,000 (2018- R102,215,000) of the Municiapl Infrastructure Grant was expended on Infrastructure capital projects.

Financial management grant (FMG)

Current-year receipts	2,215,000	2,145,000
Conditions met - transferred to revenue	(2,215,000)	(2,145,000)
	-	-

Conditions still to be met - remain liabilities (see note 16).

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

32. Government grants and subsidies (continued)

The purpose of the FMG Iis to promote and support municipal financial management reforms and assist municipalities with the implementation of the MFMA. An amount of R2, 215,000 (2018 - R2,145,000) was used during the period.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

32. Government grants and subsidies (continued)

Local goverment sector education and training authority

Balance unspent at beginning of year	333,732	126,488
Current-year receipts	323,982	368,531
Conditions met - transferred to revenue	(657,714)	(161,287)
	-	**333,732**

The Local Government, Water and Related Services SETA was established in terms of the Skills Development Act (1998). In terms of the provisions of the Act, the SETA was first established in 2000 and was recertified by the Minister of Labour in March 2005, with a reduced scope of coverage that excluded the Water Sector. It was at this stage renamed the The Local Government Sector Education & Training Authority (LGSETA). In 2011 responsibility for all SETAs was moved from the Department of Labour to the newly established Department of Higher Education and Training. The LGSETA was recertified by the Minister for the National Skills Development Strategy Ill period (2011-2016). The LGSETA has aligned its contributions to the implementation of National Skills Development Strategy Ill (NSDS Ill) primarily to support the achievement of OUTCOME 9 of the Cabinet Programme of Action, which aims to improve the effectiveness and efficiency of skills development system within the local government sector. The strategic outcome of the SETA will therefore produce a skilled and capable local government workforce.Provide explanations of conditions still to be met and other relevant information. An amount of R657,714 (2018 - R161,287) was expended during the period.

Conditions still to be met - remain liabilities (see note 16).

Integrated national electrification programme

Balance unspent at beginning of year	-	4,000,000
Current-year receipts	13,000,000	10,000,000
Refund of amount previously withheld by National Treasury	4,000,000	-
Conditions met - transferred to revenue	(17,000,000)	(10,000,000)
Repaid to National reasury	-	(4,000,000)
	-	**-**

Conditions still to be met - remain liabilities (see note 16).

The Department of Energy, Eskom and the South African Local Government Association briefed the committee on where the Intergrated Electrification Programme stood currently, the challenges it faced as well as the challenges specific to municipalities.

Expanded public works programme incentive grant

Current-year receipts	2,281,000	3,350,000
Conditions met - transferred to revenue	(2,281,000)	(3,350,000)
	-	**-**

Conditions still to be met - remain liabilities (see note 16).

Incentive paid to public bodies to incentivise work creation. The incentive is paid per quantum of employment created for the EPWP target group and can be measured in person-days of work or full time equivalent jobs.An amount of R2,281,000 (R3,350,000) was used during the period.

Water Services Infrastructure Grant

Balance unspent at beginning of year	218,760	-
Current-year receipts	35,000,000	35,000,000
Conditions met - transferred to revenue	(35,218,760)	(34,781,240)
	-	**218,760**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

32. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 16).

The Water Services Infrastructure Grant is used for the construction of the Sewer Package plant in Haartebeesfontein and Rustplaas. During the period an amount of R35,218,760 (2018 - R34,781, 240) was used on the project.

33. Public contributions and donations

Gert Sibande District Municipality	695,600	29,141,392

Reconciliation of conditional contributions		
Current-year receipts	-	29,141,392
Conditions met - transferred to revenue	-	(29,141,392)
	-	-

Conditions still to be met - remain liabilities (see note 16)

During the 2018/19 financial year, the District Municipality handed over certain projects which it funded on behalf of the Mkhondo Municipality. The projects were handed over at the end of the financial year.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

34. Employee related costs

Basic	105,841,962	99,862,821
Bonus	7,555,230	8,292,643
Medical aid contributions	7,876,529	6,176,444
Unemployment insurance fund contributions	813,906	793,344
WCA	434	-
Employee benefit plan	1,311,732	1,246,042
Leave pay provision charge	665,488	2,838,900
Pension fund contributions	22,143,628	19,388,837
Subsistence and other allowances	4,382,104	3,885,885
Overtime payments	11,495,126	10,794,578
Housing benefits and allowances	1,705,357	1,202,425
Standby	7,454,534	7,565,966
	171,246,030	**162,047,885**

Listed below are remuneration of key employees. Their remuneration is included in employee costs disclosed above.

Remuneration of municipal manager

Annual Remuneration	1,018,221	823,942
Other allowances	45,169	220,010
Contributions to UIF, Medical and Pension Funds	144,790	114,333
	1,208,180	**1,158,285**

Mr M. Kunene who is the Municipal Manager served for the whole year to 30 June 2019.

Remuneration of Chief finance officer

Annual Remuneration	819,837	422,299
Other allowances	37,302	279,148
Contributions to UIF, Medical and Pension Funds	141,025	107,314
	998,164	**808,761**

Mr B. Maseko who is the Chief Financial Officer served for 12 months up to 30 June 2019.

Remuneration of General Manager - Planning and Development

Annual Remuneration	818,992	94,786
Other allowances	37,302	33,200
Contributions to UIF, Medical and Pension Funds	140,836	5,364
	997,130	**133,350**

Mr L Motloung who is the new GM Planning and Development served for the 12 months to 30 June 2019.

General manager - Corporate services

Annual Remuneration	739,904	405,085
Other allowances	37,302	60,818
Contributions to UIF, Medical and Pension Funds	150,631	74,833
Leave Gratuity	141,079	-
	1,068,916	**540,736**

Mr M Thabede served for 12 months to 30 June 2019.

Figures in Rand	2019	2018

34. Employee related costs (continued)

General manager - Technical services

Annual Remuneration	755,482	-
Other allowances	37,302	-
Contributions to UIF, Medical and Pension Funds	131,346	-
	924,130	**-**

The GM Technical Services Ms Z. Lugongolo served for 12 months to 30 June 2019.

General manager - Community Services

Annual Remuneration	864,996	94,281
Car Allowance	37,302	28,744
Contributions to UIF, Medical and Pension Funds	95,809	12,399
	998,107	**135,424**

Mr V Khumalo is the ne General Manager Community Services and he served for12 months to 30 June 2019.

35. Remuneration of councillors

Executive Major	847,409	859,069
Chief Whip	702,565	649,031
Speaker	540,105	690,502
Councillors salaries	12,204,322	11,064,869
Councillors pension contribution	757,604	689,123
	15,052,005	**13,952,594**

36. Depreciation and amortisation

Property, plant and equipment	137,185,954	131,016,385
Investment property	937,156	903,552
Intangible assets	33,450	97,249
	138,156,560	**132,017,186**

37. Finance costs

Trade and other payables	15,676,319	13,342,678
Finance leases	292,269	-
Current borrowings	717,453	44,789
Other interest paid	1,632,325	1,269,011
	18,318,366	**14,656,478**

38. Debt impairment

Debt impairment on consumer debtors'	66,350,303	64,274,046
Debt impairment on traffic fines	15,469,648	1,003,586
	81,819,951	**65,277,632**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

39. Bulk purchases

Electricity - Eskom	125,772,188	116,534,843
Water	3,980,732	5,893,865
	129,752,920	**122,428,708**

40. Contracted services

Outsourced Services		
Administrative and Support Staff	95,919	252,625
Business and Advisory	26,202,309	22,605,089
Professional Staff	66,575	594,291
Refuse Removal	515,414	469,053
Security Services	16,110,924	20,214,534
Consultants and Professional Services		
Auditors remuneration	4,994,032	3,955,239
Legal Cost	3,646,087	2,892,949
Contractors		
Catering Services	4,197,874	1,950,221
Electrical	648,929	619,858
Gardening Services	-	77,865
Maintenance of Buildings and Facilities	1,215,469	1,380,308
Maintenance of Equipment	17,612,794	12,678,265
Maintenance of Unspecified Assets	35,612,569	6,495,660
Safeguard and Security	1,002	1,135
Sports and Recreation	143,983	198,300
	111,063,880	**74,385,392**

41. General expenses

Advertising	1,673,782	1,629,132
Bank charges	1,091,480	775,061
Commission paid	194,794	327,954
Consumables	23,467,069	14,584,402
Discount allowed	-	42,830
Insurance	4,935,723	5,059,915
Community development and training	1,761,507	270,920
Promotions and sponsorships	85,595	-
Printing and stationery	-	59,600
Protective clothing	5,014,421	3,318,142
Subscriptions and membership fees	1,446,111	2,301,093
Telephone and fax	7,006,833	4,084,998
Subsistence and travel	22,216,280	17,291,284
Training	3,650,006	2,628,532
Municipal services	5,768,951	1,422,658
Landfill sites provision	1,875,560	4,956,880
	80,188,112	**58,753,401**

42. Fair value adjustments

Biological assets - (Fair value model)	(1,908,823)	(10,445,399)

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

43. Auditors' remuneration

Business and Advisory	4,994,032	3,955,239

44. Operating deficit

Operating deficit for the year is stated after accounting for the following:

Operating lease charges		
Premises		
• Contractual amounts	1,201,657	899,005
Lease rentals on operating lease - Other		
• Contractual amounts	3,829,274	3,809,580
	5,030,931	**4,708,585**

(Loss) gain on sale of property, plant and equipment	(452,262)	1,686,386
Impairment on investment property	39,950	-
Amortisation on intangible assets	33,450	97,249
Depreciation on property, plant and equipment	137,185,954	131,016,385
Depreciation on investment property	937,156	903,552
Employee costs	186,298,035	176,000,479

45. Cash generated from operations

Surplus/(deficit)	(100,906,550)	(53,043,572)
Adjustments for:		
Depreciation and amortisation	138,156,560	132,017,186
Sale of assets and liabilities	452,262	(1,686,386)
Donated assets	-	(29,141,392)
Fair value adjustments	1,908,823	10,445,399
Finance costs - Finance leases	292,269	-
Impairment deficit	39,950	-
Debt impairment	81,819,951	65,277,632
Movements in operating lease assets and accruals	(5,275)	-
Movements in retirement benefit assets and liabilities	3,058,588	3,976,784
Movements in provisions	3,507,885	6,225,891
Changes in working capital:		
Inventories	1,744,358	(2,549,061)
Receivables from exchange transactions	314,428	(222,562)
Consumer debtors	(80,870,826)	(68,690,364)
Other receivables from non-exchange transactions	(1,854,694)	(1,508,586)
Payables from exchange transactions	45,851,947	51,614,201
VAT	1,419,923	10,148,467
Unspent conditional grants and receipts	(552,492)	(3,573,996)
Consumer deposits	124,332	40,846
	94,501,439	**119,330,487**

46. Financial instruments disclosure

Categories of financial instruments

2019

Financial assets

	At fair value	At amortised cost	Total

46. Financial instruments disclosure (continued)

Other financial assets	465,325	-	465,325
Trade and other receivables from exchange transactions	-	3,091,496	3,091,496
Other receivables from non-exchange transactions	-	3,899,700	3,899,700
Consumer debtors	-	39,550,224	39,550,224
Cash and cash equivalents	-	5,812,424	5,812,424
	465,325	**52,353,844**	**52,819,169**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	5,000,000	5,000,000
Trade and other payables from exchange transactions	298,035,386	298,035,386
VAT Payable	17,105,393	17,105,393
Consumer deposits	3,675,400	3,675,400
	323,816,179	**323,816,179**

2018

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	465,325	-	465,325
Trade and other receivables from exchange transactions	-	3,064,028	3,064,028
Other receivables from non-exchange transactions	-	2,045,006	2,045,006
Consumer debtors	-	41,692,978	41,692,978
Cash and cash equivalents	-	3,443,926	3,443,926
	465,325	**50,245,938**	**50,711,263**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	10,000,000	10,000,000
Trade and other payables from exchange transactions	264,961,364	264,961,364
VAT Payable	16,525,137	16,525,137
Consumer deposits	3,551,068	3,551,068
Unspent conditional grants	552,492	552,492
	295,590,061	**295,590,061**

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47. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	239,423,797	239,423,797
Total capital commitments		
Already contracted for but not provided for	239,423,797	239,423,797

Total commitments

Total commitments		
Authorised capital expenditure	239,423,797	239,423,797

This committed expenditure relates to plant and equipment and will be financed by the Government through disbursements by National Treasury for various Infrastructure projects, available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	3,796,457	1,662,300
- in second to fifth year inclusive	3,521,499	1,908,520
	7,317,956	**3,570,820**

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

48. Contingencies

Contingencies as at 30 June 2019

NAME OF CLAIMANT	SUMMARY OF CASE AND PROGRESS	RESPONSIBLE LAW FIRM OR APPOINTED FIRM	FILE NUMBER	AMOUNT CLAIMED	COMMENTS
Barek Management Consulting Services	The plaintiff is claiming damages for work done. They allege that they compiled a supply chain management system and they were not paid for the work done.	TMN Kgomo & Associates Incorporated	19148/2011/WDM	Claim A R 761 383.10 Claim B R 1 169 904.48	Pleadings have been closed and pre-trial conference to be held our attorneys have written a letter to plaintiffs' attorney to furnish us with three possible dates on which a pre-trial can be held.
Owethu Mkhondo Trading CCs Trading	The Plaintiff is suing the Municipality for the amount of R 21 277 570.63 for alleged breach of contract	TMN Kgomo & Associates Incorporated	46047/2014/WDM	R 21 277 570.63	The matter is trial ready, the pleadings in this matter are closed.
Pamoja TechnologiesPamoja Technologies	The plaintiff is suing the Municipality for the sum of R 1 396 370.67 for alleged breach of contract by the Municipality.	TMN Kgomo & Associates Incorporated	15597/11/WDM	R 1 396 370.67	Our Attorneys contacted the Plaintiff' Attorney to bring to their attention that the file has been unnecessarily pending on their side. Plaintiffs' Attorney informed our Attorney that the file was not assigned to anyone after Mr Dingiswayo left, and they shall take instruction from client and revert. Our attorney has further taken an initiative to uplift the court file however same could not be located at court. Attorney is following the matter up with both attorneys and court.
Busamasi Investments CC	A claim was instituted by the plaintiff for damages amounting to R588 842.62 following an alleged breach of contract by the municipality.	TMN Kgomo & Associates Incorporated	47483/2011/WDM	R 588 842.62	The matter is in active, our Attorneys contacted the Plaintiff's Attorney and they indicated their intention to have the matter withdrawn. We await plaintiff's notice of withdrawal.

48. Contingencies (continued)

Rethuseng Live Line Services CC	Summons were issued by the plaintiff against two defendants. The Municipality is cited as the second defendant. The plaintiff is claiming an amount of R 4 846 015.42.	TMN Kgomo & Associates Incorporated	40779/2014/WDM	R 3 249 043.64	All pleadings have been served and parties discovered, matter is trial ready
LP De Beer	Mr De Beer has served Summons against the Municipality or the amount of R 470 000.00, stating that he has incurred damages to his motor vehicle resulting from the road and storm water drain which he was travelling on.	Mohlala Attorneys	20751/2015/WDM	R 230 000.00	The Counsel is waiting for the Plaintiff to enrol the application on the opposed roll for same to be argued
Bicacon (Pty) vs Mkhondo Municipality	The Municipality received summons from Bicacon (Pty) Ltd seeking relief in the amount of R 5 319 140.62, as the plaintiffs are claiming that the Mkhondo Local Municipality unlawfully terminated their contract. The plaintiffs were appointed to provide Engineering Consulting Services for the construction of Driefontein to Iswepe and Hartebeesfontein Water Bulk line by Mega, which ceded their rights to the Municipality.	Mohlala Attorneys	87155/15/WDM	R 370 000.00	The attorney have proceeded to file a Notice ito Rule 30 and 30A has become apposed. We are currently waiting for a date from the registrar on the opposed roll

48. Contingencies (continued)

P (Pty) Ltd Repairs Maintenance of HDV & Yellow Metal Fleet	The Municipality received notice and summons claiming the R736 975.99 for services rendered as per SLA.	MT SILINDA	5291/2016/BSX	R736 975.99	During the course of litigation and vigorous consultations an offer of settlement was made to the Plaintiffs' attorneys as follows; 1. Payment of the amount of **R256 976.04.**In January 2019, the Municipality was served Warrant of execution has been authorized by the Registrar obtained default Judgment was obtained on the 17 September 2018 for payment of the amount of **R736 975.99** plus costs. Having regard to the above and the fact our attorney denied having received any papers from the plaint attorney or his correspondent deemed it more fit to proceed to court and apply for a stay in execution pending the launch of a comprehensive Application for Rescission of the Default Judgment together with the adverse and punitive costs orders granted. **The Application was heard on the 26th of March 2019 and an Order was granted in favour of the Municipality**. Our attorney is busy with the rescission in the matter and correspondent attorney will be joined in the application
EPH Security	The Municipality received notice and summons claiming the R3433 832.58 million for services rendered.	Madonsela Mthunzi Attorneys	331/2017/BSX	R5 277 870.57	Matter was heard on the 29 April 2019 and adjourn to allow the parties to exchange papers in a view of the application by plaintiff for amendment to be heard again on the 25/11/2019 for trial.
Madubula Joseph Solly	The Municipality received notice and summons claiming the of R2.2 million to compensate the claimant for loss suffered as the result after his contract has been terminated	Madonsela Mthunzi Attorneys	2017/BSX	R2.2 Million	The pleadings in this matter are closed, the matter is currently ready for trial.

48. Contingencies (continued)

Mkhondo Municipality vs Ideal Prepaid	The Municipality sent a letter to ideal Prepaid stipulating the Municipality's intentions to rescind its decision of entering into a contract with them. Thereafter we instructed our attorneys to do an application for review in this matter.	Madonsela Mthunzi Attorneys	2017/BSX	Reviewing Contract	The Counsel appointed for this matter has informed the legal services that he has prepared an application intended to review and set aside the agreement between the Municipality and Ideal Prepaid
Jacobs MME Bredenham	The Municipality received summons claiming R8568.90.Plaintiff hit the pothole and his motor vehicle got damages	Mthunzi Madonsela Attorneys	230/2017/BSX	R8568.90	The plaintiff has applied for joinder parties to the pleadings, joining the Department of Public Works, which application have been consented to.
Ideal prepaid Action matter	Ideal Prepaid has instituted legal Actions against the Municipality, after the Municipality terminated their contract	Madnsela Mthunzi Inc. Attorneys	732/2018/BSX	R32 089 340. 00	The Municipality has requested financial statements from the Plaintiff before we can plead but the plaintiff has since refused to provide such. The Municipality brought an interlocutory application, requesting the Court to compel the Plaintiff to provide it with statements. Municipal Attorneys consulted with advocate and concluded that the heads of arguments will be served and filed by the 22nd Feb 2019
Mnisi Solomon Jabulani Gomu	The Mkhondo Local Municipality received summons from the Plaintiff alleging that he had been arrested and detained by the traffic officers of the Mkhondo Local Municipality, he is therefore claiming an amount of R 850 000.00	Mohlala Attorneys	8550/2017/BSX	R 260 000.00	The Defendant's special plea and plea has been served and filed accordingly and the matter is currently at discovery stage

48. Contingencies (continued)

Vorster Andries Wilhelmus Jocobus	The Plaintiff is suing the Mkhondo Local Municipality in the amount of R 25 000.00 for a once off gratuity equal to three months pensionable salary, the Plaintiff was a councillor at the Municipality.	Mohlala Attorneys	367/2015/BSX	R 5 000.00	The Plaintiff's attorney have since withdrawn from the matter
Olivier AJ/Olivier J.F.B/Methodist Church of Southern Africa/Eilfiland Nursary school and day care centre vs Mkhondo Local Muncipality	The Municipality received Notice of Motion and was cited as the third respondent, as the first and second applicants are objecting to the granting of permission to use a church situated next to their property as a day care centre known as the Elfieland Nursery School. They are alleging that the first applicant is bio-polar and the immense noise and screaming of children will affect her condition. The Court granted the interdict in their favour. The Municipality has since received an appeal application from Elfieland Nursery School. The appeal is still on processes	Mohlala Attorneys	44205/2018/BSX	R 390 000.00	Appeal application process is still on going.
Dawson and Dobson (Pty) Ltd vs Mkhondo Local Municipality	The Mkhondo Local Municipality received summons from the Plaintiff alleging that we breached the verbal agreement , he is therefore claiming an amount of R 253 461.90 and R4 442.551.39 and costs	Mohlala Attorneys	1755/2018/BSX	R 470 000.00	We have since consulted with our attorney of record to enter the appearance to defend. A Notice ito Rule 7(1) has been file and awaiting defendants reply

48. Contingencies (continued)

Municipal Workers Retirement Fund Mkhondo Municipality	The Municipality received an urgent application seeking compliance with the provisions of section 13 A of the PFA application is brought in two stages, Fund seeks the order S 13 A (2) of PFA also an order compelling the Municipality to make payment to the fund of all the outstanding contributions payable to the fund	Madonsela Mthunzi Attorneys	1781/2018/BSX	Specific Performance and monies	We have since consulted with our attorney of record to file our opposing papers. We are struggling with to get proof of payment as they are needed in resolving the matter.
Copasize (Pty) Ltd	The Municipality received a Notice of Motion from Copasize (PTY) Ltd represented by Casaletti Incorporated, after the Municipality cut off their power supply at Erf 246 in Amsterdam, which is within the Jurisdiction of the Mkhondo Municipality. The Notice was to interdict the Municipality from cutting power supply and further directed the Municipality to restores power supply at the above mentioned Erf.	Madonsela Mthunzi Inc Attorneys	312/19/BSX	Specific Performance and monies	The Court set the matter down on the opposed roll for the 7th of May 2019.Matter was struck off the roll.

48. Contingencies (continued)

Vorster Andries Wilhelmus Jocobus	The applicants file for the Notice to compel the Municipality to comply with procedures provided for in section 178 of The Spatial Planning and Land Use Management by-law and enforce non-compliance with the notices it issued against the first, second and third respondents to cease their business activities on the property described as portion61,farm Welgekozen 514,Mkhondo,Mpumalanga	Madonsela Mthumzi Inc Attorneys		Specific Performance and monies	The attorneys have filed rescission of judgement. Matter was initially enrolled on the unopposed roll but they have filed opposing papers thereafter the matter has been removed from unopposed roll to opposed roll.

Contingent assets

The Municipality is suing Ideal Prepaid for Electricity Prepaid sales sold through Ideal Prepaid vendors but not remitted to the Municipality. The amount of such revenue is unkown as the Servive Provider refused to furnish the Municipality with records of sales made during the year. According to our legal attorneys, they have made an application compelling Ideals prepaid to furnish us with statements to enable us to quantify losses and recover such monies.

49. Related parties

Relationships

Accounting Officer	Refer to accounting officer's report note
Mr. M. Thabethe	Section 56 Manager
Mr. B. Maseko	Section 56 Manager
Mr. V. Khumalo	Section 56 Manager
Mr. L. Motloung	Section 56 Manager
Ms Z. Lugongolo	Section 56 Manager
Development Bank of South Africa	State controlled entity
National Treasury	State controlled entity

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

49. Related parties (continued)

Related party balances

Loan accounts - Owing (to) by related parties	2019	2018
National Treasury	-	(552,492)
TWK Agriculture	(5,000,000)	(10,000,000)

The amounts owed to National Treasury are in respect of grants allocated to the Municipality and were unspent at the reporting date. The TWK amount is a short term loan which is due and payable by July 2019. The amount bears interest at 11.25% per annum fluctuating compounded on a daily balance outstanding and capitalised on the expiry on the facility. Should the Municipality fails to settle the facility by the expiration date, a penalty fee of 7% plus standard bank prime rate shall be payable on the amount outstanding. The amount is secured over certian compartments of plantations.

Remuneration of management

Mayoral committee members

2019

Name
Cllr V. Motha
Cllr J. Mnisi
Cllr. T. Khumalo
Cllr. D. Twala
Cllr. M.L. Yende
Cllr. T.G. Nkosi

2018

Name
Cllr. V. Motha
Cllr J. Mnisi
Cllr. T. Khumalo
Cllr. D. Twala
Cllr. M.L. Yende
Cllr. T.G. Nkosi

Councillors/Mayoral committee members

2019

Name
Mayoral committee members

49. Related parties (continued)

Councillors	7,865,465	2,779,077	10,644,542
	10,905,680	**4,146,325**	**15,052,005**

2018

Name	Basic salary	Other short-term employee benefits	Total
Mayoral committee members	2,973,669	1,173,217	4,146,886
Councillors	7,801,581	2,004,127	9,805,708
	10,775,250	**3,177,344**	**13,952,594**

Notes to the Annual Financial Statements

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50. Prior period errors

Certain compartments of plantations were incorrectly valued as at 30 June 2018. A new valuation was performed on the plantations that resulted in the value of the plantations increasing from R30,052,809 as prviously reported to R....... Prior year results have been reinstated to correct the error. Certain Properties, Plant and equipment were reinstated and noted below is the effect of the reinstatement. There is a change in accounting policy for investment properties from fair value which was applied in 2018 to cost model. The effect of the change is been applied in retrospec.

51. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

2017

	Note	As previously reported	Correction of error	Change in accounting policy	Restated
Investment properties	9	76,575,000	-	(56,252,706)	20,322,294
Property plant and equipment	10	1,601,489,441	37,517,000	-	1,639,006,441
Accumulated surplus		(1,530,160,905)	18,927,541	-	(1,511,233,364)
		147,903,536	**56,444,541**	**(56,252,706)**	**148,095,371**

2018

	Note	As previously reported	Correction of error	Change in accounting policy	Re-classification	Restated
Investment properties	9	76,575,000	-	(57,156,257)	-	19,418,743
Property plant and equipment	10	1,547,016,943	108,862,025	-	-	1,655,878,968
Biological assets	8	30,052,809	19,186,080	-	-	49,238,889
Payables from exchange transactions		(264,956,089)	10,000,000	-	(937,554)	(255,893,643)
Receivables from exchange transactions		3,064,028	-	-	937,554	4,001,582
Accmulated surplus		(1,377,324,539)	(80,865,272)	-	-	(1,458,189,811)
		14,428,152	**57,182,833**	**(57,156,257)**	**-**	**14,454,728**

Statement of financial performance

2018

	Note	As previously reported	Correction of error	Re-classification	Restated
Contracted services		46,559,488	-	27,825,904	74,385,392
General expenditure		86,579,295	-	(27,825,904)	58,753,391
Grants and subsidies received		329,103,627	10,000,000	-	339,103,627
Depreciation		202,623,910	(70,606,724)	-	132,017,186
Surplus for the year		**664,866,320**	**(60,606,724)**	**-**	**604,259,596**

52. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk, but the exposure is limited to the Municipality's management thereof.

Due to largely "non-trading nature" of activities and the way to which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IFRSs mainly apply. Generally, financial assets and liabilities are generated by day to day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Budget and Treasury Office monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The Internal audit is responsible for initiating a control framework and monitoring and responding to potential risk, reports monthly to the municipality's audit committee, an independent body monitors the effectiveness of internal audit function.The municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The Municipality management of liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses. Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates to ensure that cash flow requirements are met.

The table below analyses the municipality’s financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2019	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Borrowings	5,000,000	-	-	-
Derivative financial instruments	5,000,000	-	-	-
Trade and other payables	320,435,234	-	-	-
Lease liabilities	2,314,789	2,693,544	2,305,630	-

At 30 June 2018	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Borrowings	10,000,000	-	-	-
Trade and other payables	285,590,061	-	-	-

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52. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2019	2018
Investments	465,325	465,325
Receivables from non exchange transactions	3,899,700	2,045,006
Receivables from exchange transactions	3,091,496	3,064,028
Cash and bank balances	5,812,424	3,443,923
Consumer deposits	39,550,224	41,692,978

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality’s income and operating cash flows are substantially independent of changes in market interest rates. To decrease interest rate risk exposure, investments is mostly done on a term not longer than six months. The current Interest rate shown below is the average interest earned during the year under review on call investment deposits and cash in current banking institutions.

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Trade and other receivables - normal credit terms	11.50 %	39,550,224	-	-	-	-
Trade and other payables - extended credit terms	11.50 %	320,435,234	-	-	-	-
Other financial assets	6.00 %	39,823	425,501	-	-	-
Financial liabilities	11.25 %	5,000,000	-	-	-	-
Lease liability	15.00 %	2,314,789	2,693,544	2,305,630	-	-

Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the consolidated statement of financial position either as available-for-sale or at fair value through surplus or deficit. The municipality is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the municipality diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the municipality.

Surplus for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as available for sale.

Notes to the Annual Financial Statements

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53. Unauthorised expenditure

Opening balance as previously reported	230,673,181	454,837,409
Opening balance as restated	**230,673,181**	**454,837,409**
Add: current year - unauthorised expenditure	82,042,548	230,673,181
Less: Amount written off - prior period	-	(454,837,409)
Closing balance	**312,715,729**	**230,673,181**

Prior year unauthorised expenditure amounting to R230,673,181 is under investigation by MPAC.

Unauthorised expenditure: Budget overspending – per municipal department

Budget & Treasury	40,639,351	-
Executive and Council	-	135,732,916
Planning and Development	-	504,465
Water	-	34,916,685
Community and social development	13,640,917	27,479,803
Corporate department	2,425,993	-
Technical department	25,336,287	32,039,313
	82,042,548	**230,673,182**

54. Fruitless and wasteful expenditure

Opening balance as previously reported	13,420,539	41,576,354
Opening balance as restated	**13,420,539**	**41,576,354**
Add: Current year fruitless and wasteful expenditure	15,674,795	13,420,539
Less: Amount written off - prior period	-	(41,576,354)
Closing balance	**29,095,334**	**13,420,539**

Prior year Fruitless and wasteful expenditure amounting to R13,420,539 is under investigation by MPAC.

55. Irregular expenditure

Opening balance	30,712,824	376,577,809
Opening balance as restated	**30,712,824**	**376,577,809**
Less: Amounts condoned	-	(376,577,809)
Add: Irregular Expenditure - prior period	11,261,907	30,712,824
Closing balance	**41,974,731**	**30,712,824**

Notes to the Annual Financial Statements

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56. Additional disclosure in terms of Municipal Finance Management Act

Material losses

2019

Electricity losses for the current year amounted to 32% i.e. R39,099,709. These losses comprise of technical and nontechnical losses. Technical losses, being losses within the network which are inherent in any network. Non-technical losses, being theft, faults, billing errors etc. Attempts are currently being made to reduce these non-technical losses. Nonrevenue water i.e. non billed water amounted to 24% i.e. R674,202. Fifty six percent of these losses can be accounted for in terms of the National Guidelines for non revenue water. 27% of these losses cannot be accounted for mainly due to the non-metering of this water. This problem is currently being addressed whereby additional meters are being installed.

2018
Electricity losses for the current year amounted to 37% i.e. R42,404,706. These losses comprise of technical and nontechnical losses. Technical losses, being losses within the network which are inherent in any network. Non-technical losses, being theft, faults, billing errors etc. Attempts are currently being made to reduce these non-technical losses. Nonrevenue water i.e. non billed water amounted to 31% i.e. R1,271,460. Fifty six percent of these losses can be accounted for in terms of the National Guidelines for non revenue water. 27% of these losses cannot be accounted for mainly due to the non-metering of this water. This problem is currently being addressed whereby additional meters are being installed.

Audit fees

Opening balance	2,917,494	112,951
Opening balance adjustment	(2,879,805)	-
Current year subscription / fee	6,288,518	3,955,239
VAT raised on invoices	-	549,363
Amount paid - previous years	(730,000)	(1,700,059)
	5,596,207	**2,917,494**

PAYE and UIF

Opening balance	2,088,355	-
Current year subscription / fee	27,511,178	25,183,385
Interest and Penalties	2,139,893	-
Amount paid - current year	(26,900,648)	(23,095,030)
	4,838,778	**2,088,355**

Pension and Medical Aid Deductions

Opening balance	3,168,208	-
Current year subscription / fee	40,607,318	37,391,773
Amount paid - current year	(40,361,708)	(34,225,565)
	3,413,818	**3,166,208**

VAT

VAT receivable	(61,101,585)	(23,501,237)
VAT payable	79,046,645	40,026,374
	17,945,060	**16,525,137**

VAT output payables and VAT input receivables are shown in note 20.

All VAT returns have been submitted by the due date throughout the year.

56. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2019:

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. V. Motha	88	-	88
Cllr. Shelembe N.J.	779	7,010	7,789
Cllr. Ntuli. M.D	3,807	3,485	7,292
Cllr. Ntshakala D.M.	289	4,160	4,449
Cllr. Mthethwa F.C	344	3,469	3,813
Cllr. Mahlobo S.C	1,006	7,651	8,657
Cllr. Khumalo B.M	8,138	108,517	116,655
Cllr. Yende S.Z	725	4,056	4,781
Cllr. Nkosi T.B	563	-	563
Cllr. Makhathini J	1,539	15,321	16,860
Cllr. Ngobese D.L	1,149	4,364	5,513
Cllr. Mchunu B.J	1,394	8,486	9,880
	19,821	**166,519**	**186,340**

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. V. Motha	(2,667)	-	(2,667)
Cllr. Z.J. Mnisi	2,155	-	2,155
Cllr. M.D. Ntuli	4,373	-	4,373
Cllr. D.M. Ntshakala	3,319	-	3,319
Cllr. F.C. Mthetwa	2,476	-	2,476
Cllr. N.N. Zulu	11,924	-	11,924
Cllr. S.C. Mahobo	5,542	-	5,542
Cllr. B.M. Khumalo	101,638	-	101,638
Cllr. S.Z. Yende	1,814	-	1,814
Cllr. T.B. Nkosi	276	-	276
Cllr. S.E. Mntshali	2,882	-	2,882
Cllr. J.P. Makhathini	8,648	-	8,648
Cllr. D.L. Ngobese	2,907	-	2,907
	145,287	**-**	**145,287**

57. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

The follwoing deviations were recorded during the year under review.

Deviations for the year ended 30 June 2019

Service provider	**Service description**	**Contract price**	**Procurement date**	**Order number**	**Reason for the deviation**
Government Printing Works	Gazetting of By-Laws (Revenue Section)	6,557.20	12/06/2019	026228	Section 40 of SCM Policy - Impractical / impossible to follow official procurement processess and Sole Service Provider relating to "*Publication of notices and advertisements by the municipality where applicable legislation or council policy dictates*".
Government Printing Works	Gazetting of By-Laws (Legal Section)	122,569.20	19/06/2019	026178	Section 40 of SCM Policy - Impractical / impossible to follow official procurement processess and Sole Service Provider relating to "*Publication of notices and advertisements by the municipality where applicable legislation or council policy dictates*".

Deviations for the year ended 30 June 2018

Service provider	**Service description**	**Contract price**	**Procurement date**	**Order number**	**Reason for the deviation**
Emalangeni Technologies	UPS service for the sever room.	R 34,916.52	28/07/2017	026228	The Municipal Policy on Supply Chain Management states that all requirements above R30 000(Vat Incl.) must be advertised on the notice board for at least seven (7) Days. The unit did not observe the 7 days.
Kainos Investments (pty) ltd	Supply and Install Preprogramed Elster A 1700 multifunction KWH & KVA max Meter with GPRS/3G modem.	R 199272.00	13/07/2017	026178	Due to the emergency nature of this request to prevent the revenue loss of electricity by speedily procuring and installing the bulk meters on the identified major customers around town.